
NEWS RELEASE

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GREGG COMMENTS ON ADMINISTRATION'S REQUEST TO EXTEND TARP AUTHORITY

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Washington—Senator Judd Gregg (R-N.H.) today commented on Secretary of the Treasury Timothy Geithner's letter notifying Congress that he is extending the availability of authority under the Troubled Asset Relief Program (TARP). This authority was provided under the bipartisan Emergency Economic Stabilization Act (EESA) of 2008 to help stabilize the troubled financial markets and banking system. The extension notification provided today enables the Secretary to utilize TARP funds through October 3, 2010.

Senator Gregg, one of the lead negotiators of EESA, stated, "Around this time last year, our nation's economy was on the brink of collapse, and the deployment of TARP funds helped our financial system regain some stability. The program, while criticized by many, helped prevent a catastrophic economic collapse that would have impacted all Americans.

"While some challenges may still remain, I strongly oppose Secretary Geithner's decision to extend the TARP. For a program that the President claimed yesterday is so unloved, my Democratic colleagues sure love to abuse it. They love to claim phony savings from TARP to justify more deficit spending. They love to tap the program to fund government interventions that have nothing to do with the financial system, such as the auto bailout. And they love the idea of using TARP as a piggy bank for more and more federal handouts. Regrettably, this Congress and the Administration can no longer be trusted with a \$700 billion line of credit from the American people. It should expire this year, and, as originally intended and required by law, all funds be paid back to the American taxpayer.

"Recent news reports and announcements by the Administration indicate that it plans to use remaining TARP authority not solely for emergency financial stabilization, but also on programs to grow the government. Using TARP authority for any purpose other than purchasing risky assets from troubled financial institutions to address an emergency in our financial system is inappropriate and illegal. Other suggested potential 'uses' of remaining TARP authority, such as claims that the Treasury can somehow use it to pay

down federal debt, simply reflect a misunderstanding of how the federal budget and Treasury borrowing works.”

FREQUENTLY ASKED QUESTIONS ABOUT TARP

Q. What does Secretary’s letter extending TARP authority mean?

A. It means that all of the approximately \$300 billion in remaining available TARP authority that would have expired on December 31, 2009 is now available to the Secretary until October 3, 2010. If other financial market crises arise between now and then, the Secretary will not have to ask Congress to enact a new law providing authority to extend that amount of assistance (plus any amounts repaid between now and then); he will have this remaining TARP authority to work with. Congressional action is not required for the extension to take effect; the extension is already in effect now that the letter has been sent. If Congress wants to prevent this TARP authority from being available after December 31, 2009, then it would have to enact a new law overriding the Secretary’s action.

Q. Can the Secretary extend only some of the remaining TARP authority?

A. No. EESA set up an all-or-nothing option. The Secretary could allow any and all remaining authority to expire on December 31, 2009. Or he could extend all remaining authority through October 3, 2010. He cannot extend just a portion of the remaining authority.

Q. Can the Secretary apply unused TARP authority to pay down the debt?

A. No. Because that scenario is a logical impossibility. Here is an instructive analogy: You had a hurricane and your house is damaged.

You go to the bank – bank gives you a line of credit of \$20,000 for home repairs.

You replace all your windows, costing \$10,000.

Home inspector comes and says your roof isn’t as bad as you thought; don’t need to replace.

You go back to the bank and close down line of credit.

You tell the banker that you don’t need the other \$10,000 part of your line of credit and you would like to use that unused line of credit to pay down your debt of \$10,000 that you borrowed to replace the windows.

The banker says, no, you still have to repay the \$10,000 you borrowed.

Q. Can the Secretary apply unused TARP authority to pay down the deficit?

A. No. It has been apparent for half a year that the Secretary is not using all available TARP authority and that deficit is already lower as a result (CBO had already provided an estimate to Congress four months ago reflecting this outcome). The Secretary can’t make the deficit for 2010 go lower than it already is by virtue of not using all of the authority. But now that the Secretary has extended his authority, if a financial crisis reemerges between January and October and he has to use more of the authority than he currently expects to use, then the deficit will go up. If he instead uses the authority for some purpose unrelated to TARP, the deficit will go up as well.

Q. What happens with the money when a bank or other entity repays TARP funds?

A. By law, the repayments are deposited in a “non-budgetary” financing account that is used to determine the final subsidy cost of the loan and to pay down the debt that was incurred to make the loan in the first place.

Q. What happens with the money when Treasury receives interest and dividends from assets it acquired through TARP?

A. By law, the proceeds from interest and dividends are deposited in a “non-budgetary” financing account that is used to determine the final subsidy cost of the loan and to pay down the debt that was incurred to make the loan in the first place.

Q. What happens with the money Treasury receives from auctioning TARP assets?

A. By law, the proceeds from auctioning TARP assets are deposited in a “non-budgetary” financing account that is used to determine the final subsidy cost of the loan and to pay down the debt that was incurred to make the loan in the first place.

Q. Can repaid TARP funds (principal, interest, dividends, warrants other proceeds) be used to offset the cost of new spending?

A. No, the law is very clear. Secretary Geithner sent a letter on June 30 answering Senator Gregg’s question about what is supposed to happen with repaid TARP funds. The letter agrees with the law, which says that repaid TARP funds and TARP proceeds can only be used to pay down the debt (sections 106 and 123 of EESA). CBO scores any legislation that attempts to use repaid TARP funds with only the cost of the new spending.

Q. Can existing TARP authority be used to pay for infrastructure, highways, or jobs programs without Congress enacting a new law that expands the uses for which Treasury can employ TARP authority?

A. No. EESA’s states that its purpose is to provide authority that the Secretary “can use to restore liquidity and stability to the financial system” of the U.S. Moreover, EESA sets forth explicit criteria for what the Administration can do with TARP authority – namely, purchase “troubled assets” – e.g., mortgages and other financial instruments – from a financial institution. Using TARP authority for highway construction or home weatherization, for instance, does not fall within the legal parameters of TARP authority.

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